costs have grown, because of increased demand, the LECs have been able to recover more revenues over time stemming from the inclusion of equal access costs in their PCIs.

Because volume growth is not reflected in the X-Factor adjustment, to ensure complete removal of those equal access costs still remaining in the LECs' PCIs, the downward exogenous adjustment must reflect current demand. The "R" value true-up does that. As the Commission correctly tentatively concluded in the Designation Order (para. 41),

> "a revenue adjustment to the amortized equal access expenses, as opposed to a PCI adjustment, is a reasonable method of fully removing the amortized equal access costs from current rates." . . . [I]t recognizes that price cap indices are adjusted to reflect the average basket price and a component of that price reflects equal access amortization. It further recognizes that as demand has grown over time, the revenue recovered through this equal access amortization component of price has grown correspondingly. Therefore, to remove fully the revenues being collected today associated with the amortized equal access cost, we tentatively conclude that the LECs must account for this demand growth." (emphasis provided)

As the Commission itself has recognized (id.), and in accordance with established Commission requirements, the LECs must use a revenue growth adjustment to fully remove the impact of previous periods' costs.[29] In this case, the

[29] For example, the Commission has consistently required the LECs to utilize a true-up procedure for the removal of previous periods' exogenous costs from the PCIs. See Commission Requirements for Cost Support Material To Be Filed with 1993 Annual Access Tariffs, 8 FCC Rcd

(footnote continued on following page)

equal access exogenous cost adjustment is analogous to the removal of previous periods' exogenous cost adjustments for which the Commission has required the LECs to true-up the basket revenues to account for basket revenue growth.[30] The current basket revenues include the net impact of PCI changes and volume growth since January 1, 1991 and allow removal of the full amount of equal access costs.[31]

Once the LEC makes the "R" true-up, the removal of the equal access amortization amount is simple and straightforward. For example, if a LEC's equal access amortization costs were 10% of its traffic sensitive basket revenues, it means that 10% of the baseline basket PCI in 1991 represented these costs. Since 1991, the basket

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(footnote continued from previous page)

1936, 1939 n.30 (1993); Commission Requirements for Cost Support Material To Be Filed with 1994 Annual Access Tariffs and for Other Cost Support Material, 9 FCC Rcd 1060, 1063 n.29 (1994).

[30] See 1995 Annual Access Tariff Filings of Price Cap Carriers, 11 FCC Rcd 5461, 5470 (1995) ("Under the Commission's price cap rules, a sharing obligation requires a one-time adjustment to the PCIs in the annual access tariff filing following the year in which the sharing obligation is incurred. At the end of the tariff year, the Bureau requires the LECs to 'reverse' the effect on the PCIs in order to restore the status quo. The adjustment in most cases, differs from the amounts of the original sharing adjustments in order to account for revenue growth that has occurred since the original adjustment to a LECs' PCIs.")

[31] Because of this fact, it was incorrect for the LECs to deflate their PCIs before removing the equal access amounts.

revenues have changed due to inflation and other factors and by the growth in volumes, which are reflected in the current revenues. To fully exclude the equal access amortization costs from the current PCI, the LEC in this example must make a downward exogenous cost adjustment equal to 10% of the current basket revenues, without making the PCI adjustment referenced above. Given its simplicity, the Commission should require all price cap LECs to use this procedure.

Despite its merits, Frontier (at 8-9) and SBC (at 41-42) contend that because the Commission did not require an "R" value true-up, imposition of any such requirement now would constitute impermissible retroactive rulemaking. This is nonsense. In the Access Reform Order, the Commission directed the removal of equal access costs and left implementation details to the Bureau. Indeed, the 1995 Suspension Order recognizes that express Commission authority is not needed to require an "R" true-up, especially where (as in this instance) the Commission's order requiring the downward exogenous adjustment (here, the Access Reform Order) does not state (as did the Commission's order requiring the removal of OPEB costs cited by the LECs) that the same exact dollar amounts originally included in the PCIs are to be removed.[32] Moreover, the LECs' own actions (in unilaterally making PCI adjustments not required by the Access Reform Order) undercut their assertion that every implementation detail must be specified in the Commission's order requiring the cost removal.

BellSouth's alternative contention (at 11) that the Commission has not required "R" true-ups for completion of "analogous" amortization of depreciation reserve deficiencies and inside wire is inapposite because the completion of those amortizations was reflected in annual downward exogenous adjustments. By contrast, there have been no such annual adjustments for equal access costs, and an "R" value true-up is imperative to remove the full impact of the completion of equal access amortization as an end adjustment.

Bell Atlantic (at 8) contends that if an "R" value true-up is required, it should not be based on the change in local switching revenues because, at the start of price cap regulation, equal access costs were recovered through a separate per-line rate element and per-minute local switching revenue growth had nothing to do with equal access costs. To the contrary, making the "true-up" adjustment based on the Local Switching band revenue growth is

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[32] 1995 Annual Access Tariff Filings, Memorandum Opinion and Order Suspending Rates, 11 FCC Rcd 5461, para. 15 (1995) ("1995 Suspension Order").

appropriate in this case because equal access costs remained in the LECs' Local Switching band since January 1, 1991. Accordingly, it will provide a more accurate adjustment as compared to Traffic Sensitive basket revenues, because a major portion of the LECs' Traffic Sensitive basket revenues were moved to the Trunking basket, when that basket was created in 1994, as part of the local transport restructure. Moreover, because the equal access and local switching rate elements were in the same service band, any reduction in one rate element resulted in a commensurate increase in the other. Finally, most equal access costs were, in fact, recovered through local switching rates, and the separate equal access cost recovery element was an additive to the cost recovery embedded in those rates.

As shown in Appendix F, page 2 of 2, AT&T estimates that the LECs' filed PCIs are overstated by $60.7 million, due to their failure to make the "R" true-up, coupled with their inappropriate PCI deflation.[33] The Commission should require the LECs to adjust their January 1, 1991 equal access amortization costs by the percentage their Local Switching band revenues have grown since January 1, 1991 and then remove those amounts from their current PCIs.

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[33] This is in addition to the $1 million by which Ameritech underestimated its initial equal access costs.

B. Ameritech Miscalculated The Equal Access Amortization Costs That Were Included In Its Initial PCIs.

To correctly compute the required downward equal access exogenous cost adjustment, as a first step, a LEC must properly identify the "amortization" portion of the equal access expense that entered the price cap revenue stream. As AT&T's petition (at 7-9) showed, Ameritech has failed to properly calculate the amounts of equal access amortization costs that were reflected in their baseline equal access rates at the outset of price caps in 1991. [34] In the 1997 Suspension Order (para. 36), the Commission found that the documentation of the unadjusted equal access expense provided by Ameritech indicates that it may have failed to implement properly the requirements of the Access Reform Order.

In its Direct Case, Ameritech has failed to justify its calculation of the revenue requirement associated with the amortized equal access expenses. The price cap LECs' initial equal access rates were based on the equal access revenue requirements as filed as part of LECs' 1990 Annual Tariff Filings in the Cost of Service No. 5

[34] See Appendix F, page 1 of 2. Although in its Petition AT&T had also questioned SNET's computation of its initial equal access costs, in its Direct Case (at 5-6), SNET has explained that certain costs were properly expensed as general network upgrades rather than treated as equal access costs.

Report ("COS-5"). Most of the LECs that performed the analysis to adjust their current indices properly computed the proportion of equal access amortization revenue requirements associated with the total equal access revenue requirement amounts that were displayed in the 1990 COS-5 Reports. The relative share of the amortized cost was then used to identify the portion of the non-capitalized equal access costs that were included in the initial traffic sensitive basket and which must now be removed.

Ameritech, however, used one data source to calculate its total equal access revenue requirement and a separate source or point in time to calculate its "non-capitalized" revenue requirement. Ameritech used data from its COS-5 report, filed April 25, 1990, to calculate the total equal access revenue requirement. Without explanation, Ameritech developed its "non-capitalized" net revenue requirement from a separate data source labeled "Separations Information System (7/90-6/91)." The data values reported from this second source do not appear to agree with the data on the COS-5,[35] and Designation Order (para. 45) directed Ameritech to explain and document fully how it "was able to calculate accurately the equal access

[35] For example, data points such as expenses less depreciation, unamortized equal access expense and federal income tax do not agree with the amounts used to calculate the total equal access net revenue requirement.

amortization revenue requirement through the use of internal separations data." It has not done so.

Ameritech does not dispute that the reported COS-5 data formed the basis for its pre-price cap equal access rates, as well as its initial rates under price caps and its price cap indices. Despite the fact that other LECs (including Pacific, Nevada, Bell Atlantic-South and Bell Atlantic-North, and SWBT) were able to derive the non-capitalized and capitalized portions of their revenue requirement from the COS-5 report, Ameritech (at 8) contends that the COS-5 Report does not contain sufficient detail to identify these components of its equal access revenue requirement.[36] Therefore, Ameritech divides its "actual" non-capitalized equal access expenses for the 1990 tariff period by its COS-5 projected total equal access revenue requirement to determine the amount of non-capitalized expenses used to establish its initial price cap equal access rate.

Ameritech's use of "actual" data is not a reliable mechanism for computing the non-capitalized equal access expenses which entered Ameritech's price cap rate, because its rate was based on revenue requirement projections made well in advance of the availability of actual results.

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[36] The report and associated instructions clearly contain enough information to reproduce the components of the revenue requirement

Moreover, Ameritech uses both actual and projected data to derive its ratio of non-capitalized equal access expense to the total projected equal access revenue requirement. Consequently, the Ameritech analysis uses inconsistent data and produces meaningless results.

To ensure that the same base data is used to calculate both the net equal access revenue requirement and the net revenue requirement associated with the "non-capitalized" cost, AT&T recalculated the net revenue requirement using only COS-5 data. The equations AT&T used are identical to the formulas used by the majority of the LECs to separate their COS-5 data into its component non-capitalized and capitalized amounts. The AT&T analysis is both internally consistent and is based on the data that were actually used to produce the initial equal access rate. According to AT&T's calculation, Ameritech has understated its equal access exogenous cost adjustment by approximately $1 million. See Appendix F, page 1 of 2.

III. SEVERAL LECS HAVE FAILED TO JUSTIFY THEIR TREATMENT OF OTHER BILLING AND COLLECTION EXPENSES.

On February 3, 1997, the Commission released an Order[37] implementing a change in the separations rules for

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[37] Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket 80-286, Report and Order, FCC 97-30, released February 3, 1997 ("February 3 Order").

the jurisdictional allocation of Other Billing and Collection expenses. The February 3 Order changed the interstate allocation methodology for OB&C expenses from a user count to a fixed allocator of either 33% or 5%, depending on whether the LEC performs any end user billing for IXCs. A LEC that performs no billing and collection on behalf of IXCs is permitted to assign 5% of its Total Company Unseparated OB&C Expenses to interstate to cover billing the interstate SLC.[38] LECs that handle some billing and collecting of end users on behalf of IXCs are allowed to assign 33% of OB&C to interstate, with the difference representing interstate amounts for detariffed billing and collection. As shown below, Pacific and U S WEST have failed to reflect correctly the OB&C separations change as an exogenous adjustment and the Commission should require them to reduce their OB&C exogenous costs.

A. Pacific Improperly Excluded Invoice-Ready Messages From Its Toll Message Counts Used In Allocating Other Billing And Collection Expenses To Interstate.

In the 1997 Suspension Order (para. 53), the Commission found a disparity between a portion of the billing revenues that Pacific allocated to the interstate jurisdiction and the portion of billed toll messages that it

[38] The 5% of OB&C associated with SLC billing is assigned to the Common Line Base Factor Portion for recovery.

attributed to the interstate services. Pacific's Direct Case (at 47-49) shows that it had excluded invoice-ready messages from the message counts used to allocate the message portion of OB&C expenses to interstate. This increased Pacific's OB&C exogenous cost by approximately $4.5 million. In so doing, Pacific impermissibly deviated from the separations rules, and it should be required to reduce its OB&C exogenous costs by recalculating the exogenous adjustment to include these messages.

Prior to the OB&C separations change, the separations rules required that the message interstate portion of OB&C expenses be based on an allocation of messages.[39] There is no provision in the rules for excluding any messages from the message counts used in the allocation. Other than Pacific, it appears that no other carrier made a similar exclusion.[40] However, Pacific's Direct Case shows that, without obtaining a waiver, it had unilaterally decided to exclude invoice-ready messages from

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39 See 47 C.F.R. 36.380(b)(1) (1996) (pre-amendment).

40 In responding to the Designation Order's directive to state if any messages were excluded, GTE's Direct Case (at 23) states that "[t]he message counts provided in response to Para. 51d include the billable, toll messages that appear on customer bills. There were no toll message counts excluded." (emphasis provided)

the message totals based on its belief that invoice-ready messages imposed less cost upon Pacific's OB&C operations than other messages.

Because the interstate percentage of invoice-ready messages is considerably higher than other messages which Pacific included in its message counts, the impact of excluding invoice-ready messages was to overstate OB&C exogenous costs. This is because Pacific's exclusion understates the interstate assignment of OB&C expenses under the separations rules as they existed prior to the OB&C separations change and the OB&C exogenous amount is calculated as the Part 36/69 assignments under the new rule minus assignments under the prior rule. Therefore, had Pacific included invoice-ready messages, the interstate base under the prior rule would have increased, thereby diminishing the impact of converting to the new rule.

Pacific should be required to recompute the OB&C exogenous impact by increasing the interstate base under the prior separation rules by including invoice-ready messages in the message counts used for the message interstate separation. Although AT&T has not been able to quantify precisely the impact of Pacific's failure to include all messages in the OB&C allocation process upon the OB&C exogenous cost totals, it appears that, based upon the difference between the interstate assignment of invoice-ready messages compared to other messages, the decrease in OB&C exogenous costs would be approximately $4.5 million.[41]

B. U S WEST Improperly Made A Retroactive Rate Adjustment To Recoup Past Other Billing And Collection Costs.

The OB&C separations rule change became effective on May 1, 1997, whereas rates in the annual access filing were scheduled to become effective two months later, on July 1, 1997. With the exception of U S WEST, LECs that filed OB&C exogenous cost adjustments in their 1997 annual access tariffs determined how much additional OB&C interstate costs they would incur over the 12-month annual period. However, in its 1997 annual filing, U S WEST made an additional exogenous adjustment of $845,145 in an attempt

[41] AT&T estimated this impact as follows. Based on Pacific's OBC-3, the interstate percent of 1996 messages excluding invoice-ready messages was 4.28%. Based upon the invoice-ready messages shown on Pacific's OBC-4, AT&T then determined the overall message interstate percent would increase to 14.33% had invoice-ready messages been included. Given that the OB&C interstate assignment under the new rule is fixed at 33.33%, then the difference between the new interstate percent and the message interstate percent under the old rule (excluding invoice-ready messages) is 33.33% minus 4.28% = 29.05%. Had invoice-ready messages not been improperly excluded, this difference would be 33.33% minus 14.33% = 19.00%. AT&T then assumed Pacific's OB&C exogenous costs would be reduced by the factor (1.0 -19.00%/29.05%) = 34.6% had invoice-ready messages been included. Finally, AT&T reduced Pacific's original interstate access exogenous cost amount of $12,940,964 by this 34.6% to derive the estimated impact of approximately $4.5 million.

to recover increased OB&C interstate costs for a two-month period prior to the tariff effective date, contrary to the Commission's policy against retroactive ratemaking.[42] In essence, U S WEST set its exogenous cost level so as to permit recovery of 14 months of increased OB&C costs (from May 1, 1997 to June 30, 1998) over the 1997-1998 tariff year.

As the 1997 Suspension Order (para. 51) properly concluded, U S WEST's exogenous adjustment of $845,145 to recover the two months of OB&C costs between May 1 and July 1, 1997 "raises substantial questions of lawfulness."[43] In its Direct Case, U S WEST (at 36) points out that several other LECs recovered the increased interstate costs for these two months "by filing tariff changes to become effective on May 1, 1997." U S WEST then asserts it should not be treated any differently because it chose to recover these costs in a later filing.

Although U S WEST could have made an earlier filing, as several other LECs had done to recover their increased OB&C exogenous costs prior to the annual filing, U S WEST elected not to do so. Having failed to make a rate increase effective with the period in which the costs were incurred, U S WEST should not now be permitted to make a

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42 Nader v. FCC, 520 F.2d 182, 202 (D.C. Cir. 1975).

43 Designation Order, para. 47.

retroactive adjustment in its annual access filing to cover a 14-month period which includes two months before the rates became effective. Therefore, the Commission should order U S WEST to reduce its OB&C exogenous cost by $845,145.

IV. SEVERAL RATE-OF-RETURN CARRIERS HAVE FAILED TO JUSTIFY THEIR TREATMENT OF CASH WORKING CAPITAL.

Cash Working Capital ("CWC") is the amount of investor-supplied funds required to pay operating expenses incurred in providing common carrier services prior to the receipt of revenues for such services. CWC is generally computed by determining the revenue lag and the expense lag and multiplying the difference by the carrier's average daily operating expenses.[44]

At issue in this investigation is the treatment of CWC by four rate-of-return companies -- PRTC, Roseville, Concord and Chillicothe. As AT&T showed in its June 23, 1997 rate-of-return petition and its June 27, 1997 petition (at 1-3 and Att. A) addressed to Roseville's annual filing, in aggregate these LECs have overstated their CWC requirements by a total of $19.4 million, resulting in an

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[44] Revenue lag is the average number of days between the date a service is provided and the date associated revenues are collected. Expense lag is the average number of days between the date a service is provided and the date the expenses associated with those service are paid. The difference between revenue lag and expense lag is referred to as the net lag.

aggregate overstatement of their interstate revenue requirements by approximately $3.3 million.[45]

In assessing each LEC's stated CWC requirements, AT&T divided the company's projected total cash expense (excluding depreciation) by 365 days to determine the average cash needed daily. The daily cash figure was then divided into the LEC's projected CWC requirement to derive its net lag, which for these carriers ranged from 53.4 days to 64.2 days. The result was then compared to the standard 15-day CWC lag period established by the Commission.[46] AT&T's analysis showed that if these companies had employed a 15-day net lag to determine their revenue requirements, their interstate revenue requirements would decrease in aggregate by $3.3 million.[47]

The Designation Order (paras. 64-66) required these companies to submit the lead-lag studies used to determine their proposed net lag periods and other carrier-

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45 See Appendix G.

46 See 1993 Annual Access Tariff Filings, CC Docket Nos. 97-193, Phase I, Part 2, and 94-65, Memorandum Opinion and Order, FCC 97-139, released April 17, 1997, para. 70 ("1993 Annual Access Filings")(reaffirming 1989 determination that 15 days is the "standard" lag period for calculating CWC).

47 These amounts were derived by multiplying the overstated CWC by the permitted 11.25% interstate rate-of-return to determine the effect on interstate income and then adjusting for the 34% corporate income tax rate.

specific information. The data submitted by PRTC does not provide sufficient justification for its CWC.

In the Designation Order (para. 65), the Commission directed PRTC to, among other things, "explain fully [its] dispute [claim] process," including the length of time needed to resolve each dispute. Rather than providing detailed analysis of the time necessary to resolve the disputes, PRTC makes the unsupported assertion (at 4) that "disputes involving sums less than $100 were resolved on average between 90 and 120 days," even though "[d]ata is not available to determine the length of time required to settle each case on a per dispute basis." Without more information, neither AT&T nor the Commission can verify the average time necessary to resolve a dispute. PRTC should be required to provide that information.

Chillicothe and Concord have not provided current lead-lag studies to calculate their CWC, as required by the Commission.[48] Chillicothe (Description and Justification ("D&J")at 1-2) uses a "representative three-month period" from 1990 to perform the analysis. Concord (at 1) developed its lead-lag study "using 1993 revenue and expense data." The Commission has found that a lead-lag study is flawed

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48 See, e.g., Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, Order on Reconsideration, 4 FCC Rcd 1697 (1989); 47 C.F.R. §65.820.

when it uses old data, because there is "no way for [the Commission] to determine if [the] data are representative [of the LEC's current] operations covered by the tariff under review."[49] Failure to use current data in lead-lag studies violates the Commission's cash working capital requirements.[50]

Roseville and Chillicothe do not explain the excessive revenue lags related to the NECA common line settlement process. As AT&T understands the settlement process, the LECs that are NECA members collect revenues from IXCs monthly. The NECA members retain those funds and submit the related collection information directly to NECA. NECA, in turn, determines the monthly net settlement amount either due to or owed by the participating LECs based on the LECs' annual interstate cost studies. NECA settles with the LECs at the end of the month following the LECs collection of revenues, by either remitting a check to the LEC or

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49 See 1993 Annual Access Filings, para. 67 (Roseville's lead-lag study for 1993 was deemed outdated because Roseville used 1989 data. Consequently, the study itself was found to be flawed.)

50 Ameritech Telephone Operating Companies, Order to Show Cause, 10 FCC Rcd 5606, 5607-08 (1995). Ameritech did not satisfy the requirement that it perform and use current lead-lag studies when it relied on old studies. Wisconsin Bell used an eight year-old lead-lag study that the Commission found "violated the Commission's requirement that it have and use a current lead-lag study for cash working capital development." Id. at 5613.

having the LEC remit a check to NECA when the LEC's revenues exceed the settlement amount. While this process normally should take about 60 days, Roseville claims (at 13) that it does not receive the NECA funds for more than 82 days[51] and Chillicothe claims (D&J at 4) it does not receive the funds for more than 194 days. Roseville and Chillicothe should be required to explain why their revenue lags deviate so greatly from those of the other LECs participating in the NECA settlement process.[52]

Because these companies have failed to justify their protracted net lag periods, the Commission should require them to recalculate their revenue requirements using verifiable and accurate data to calculate lead-lag studies.

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[51] Roseville calculated the NECA settlement lag using data from April 1994 through March 1995. The data show that, excluding January and February 1995, the monthly lag ranged from 32.63 to 92.62 days, with a median of 45.07 days. The February 1995 lag, however, was 181.49 days. Roseville should be required to explain this apparent discrepancy.

[52] In addition, Roseville, in contravention to the Commission's requirement that overpayments of federal and state income taxes not be used in calculating Roseville's lead-lag study, included (at 21-22) those overpayments in calculating its FIT and SIT expense lags. See 1993 Annual Access Filings, para. 70. Consequently, by its own admission (at 22), Roseville overstated its net lag by approximately 5 days.

CONCLUSION

For the reasons stated above, the Commission should require the cited companies to revise their rates prospectively, to refund the overstated amounts collected during the pendency of this investigation, and, in the case of the price cap companies, to reduce their PCIs.

Respectfully submitted,

AT&T CORP.

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September 17, 1997

LECs FILING DIRECT CASES
CC Docket No. 97-149

Price Cap Companies

Aliant Communications Co. ("Aliant")

Ameritech

Bell Atlantic Telephone Companies (collectively, "Bell Atlantic," otherwise "Bell Atlantic-South" and "Bell Atlantic-North," the latter formerly NYNEX)

BellSouth Telecommunications, Inc. ("BellSouth")

The Frontier Telephone Companies (collectively "Frontier," otherwise "Rochester" or "Frontier MN & IA")

GTE Service Corporation (on behalf of the GTE System Telephone Companies ("GSTC") and the GTE Telephone Operating Companies ("GTOC"), collectively "GTE")

SBC Companies (collectively, "SBC," otherwise Southwestern Bell ("SWBT"), Pacific Bell ("Pacific") and Nevada Bell ("Nevada"))

The Southern New England Telephone Company ("SNET")

Sprint Local Telephone Companies ("Sprint")

U S WEST Communications, Inc. ("U S WEST")

Rate-of-Return Companies

Chillicothe Telephone Company, Inc. ("Chillicothe")

Concord Telephone Company ("Concord")

The Puerto Rico Telephone Company ("PRTC")

Roseville Telephone Company ("Roseville")

Comparison of RBOCs Actual BFP Revenue Requirement with Projected

[Dollar in 000]

BFP Revenue Requirement		ACCESS TARIFF YEARS 91/92	92/93	93/94	94/95	95/96	96/97	Tariff Diff. 92-97
Ameritech								
	Actual	787,187	820,991	952,858	1,037,718	1,022,699	1,033,471	
	Projected	735,746	757,906	833,823	1,006,213	1,028,026	1,106,711	
	Diff	(51,441)	(63,085)	(119,035)	(31,505)	5,327	73,240	(186,499)
Bell Atlantic[1]								
	Actual	910,304	975,404	1,141,585	1,236,944	1,247,084	1,293,245	
	Projected	851,092	915,634	1,130,894	1,159,884	1,259,843	1,304,709	
	Diff	(59,212)	(59,770)	(10,691)	(77,060)	12,759	11,464	(182,510)
BellSouth								
	Actual	1,386,648	1,457,351	1,655,630	1,768,817	1,843,461	1,867,910	
	Projected	1,356,340	1,401,481	1,648,031	1,665,010	1,843,367	1,915,959	
	Diff	(30,308)	(55,870)	(7,599)	(103,807)	(94)	48,049	(149,629)
NYNEX								
	Actual	1,035,201	1,013,484	1,236,393	1,273,159	1,378,490	1,191,331	
	Projected	944,967	914,476	1,037,579	1,174,429	1,211,303	1,243,341	
	Diff	(90,234)	(99,008)	(198,814)	(98,730)	(167,187)	52,010	(601,963)
Pacific Bell								
	Actual	678,773	731,745	802,661	845,251	870,834	916,947	
	Projected	692,952	669,613	801,594	828,146	820,333	855,304	
	Diff	14,179	(62,132)	(1,067)	(17,105)	(50,501)	(61,643)	(178,269)
Nevada Bell								
	Actual	17,174	16,388	17,056	18,406	19,879	21,738	
	Projected	16,741	15,192	16,803	17,627	17,759	18,564	
	Diff	(433)	(1,196)	(253)	(779)	(2,120)	(3,174)	(7,955)
SWBT								
	Actual	704,637	745,986	907,635	953,267	1,031,487	1,137,438	
	Projected	681,597	669,479	885,246	920,554	948,126	1,026,025	
	Diff	(23,040)	(76,507)	(22,389)	(32,713)	(83,361)	(111,413)	(349,423)
U S WEST								
	Actual	776,126	811,770	956,607	1,092,181	1,170,617	1,276,355	
	Projected	748,748	754,627	911,127	1,022,253	1,035,131	1,164,893	
	Diff	(27,378)	(57,143)	(45,480)	(69,928)	(135,486)	(111,462)	(446,877)
TOTAL DIFFERENCE								**(2,103,125)**

[1] Bell Atlantic incorrectly calculated its Total Other Taxes, causing it to understate its actual BFP Revenue Requirement on both a calendar and tariff period basis. Total Other Taxes applicable to BFP Revenue Requirements are calculated as the ratio of Total Operating Expense for BFP (ARMIS 11190, column K) to Total Operating Expense for Common Line (ARMIS 1190, column M) times the amount of Total Other Taxes Common Line (ARMIS 1490, column M). Bell Atlantic miscalculated the Total Other Taxes, and consequently its BFP Revenue Requirement, by $33.5 million for the 1994 calendar year requirement. See Appendix B, pages 2-3 of 6.

Calculation of Total Other Taxes - Applicable to BFP (1)
Bell Atlantic - South Calendar Year 1994

[Dollars in 000]

	Total Operating Expense - BFP (A)	Total Operating Expense - Common Line (B)	Ratio (C)	Total Other Taxes Common Line (D)	Total Other Taxes BFP (E) = (C*D)
From ARMIS 4Q94	868,598	912,168	0.9522	70,317	66,958

Impact of Miscalculated Total Other Taxes - BFP Relative to Calendar Year 1994 Requirement

[Dollars in 000]

Bell Atlantic-South 1994 Filed Total Other Taxes (2) (A)	Total Other Taxes - BFP Calculated (B)	Amount of Total Other Taxes Understatement (C) = (B-A)	Bell Atlantic -South 1994 Filed BFP Revenue Requirement (2) (D)	Corrected Revenue Requirement (E) = (C+D)
33,450	66,958	33,508	1,171,924	1,205,432

(1) Commission rules require Total Other Taxes applicable to BFP to be calculated as the ratio of Total Operating Expense BFP (ARMIS 1190 Column K) to Total Operating Expense Common Line (ARMIS 1190 Column M) times the actual amount of Total Other Taxes (ARMIS 1490 Column M)

(2) Bell Atlantic Direct Case Exhibit 16S-1-A and 16S-1-B

Calculation of Total Other Taxes - Applicable to BFP (1)
Bell Atlantic - South Tariff Years 91/92, 92/93, 93/94, 94/95, 95/96

[Dollars in 000]

Tariff Period	First half of Tariff Period (3)	Second half of Tariff Period (4)	Total Tariff Period	Bell Atlantic - South Filed	Amount of Total Other Taxes Understatement	Bell Atlantic -South Tariff Period Filed BFP RR (2)	Corrected Revenue Requirement
	(A)	(B)	(C)=(A+B)	(D)	(E)=(C-D)	(F)	(G)=(E+F)
91/92	23,523	24,084	47,607	23,912	23,695	886,609	**910,304**
92/93	24,096	28,259	52,355	19,343	33,012	942,392	**975,404**
93/94	31,978	34,081	66,059	36,448	29,611	1,111,974	**1,141,585**
94/95	32,877	33,140	66,017	33,725	32,292	1,204,652	**1,236,944**
95/96	29,548	30,733	60,281	48,323	11,958	1,235,126	**1,247,084**

(1) Commission rules require Total Other Taxes applicable to BFP to be calculated as the ratio of Total Operating Expense BFP (ARMIS 1190 Column K) to Total Operating Expense Common Line (ARMIS 1190 Column M) times the actual amount of Total Other Taxes (ARMIS 1490 Column M)

(2) Bell Atlantic Direct Case Exhibit 16S-1-A and 16S-1-B

(3) For Tariff Period Actual Data, First half of Tariff Period is calculated as the difference between 4th quarter and 2nd quarter filed ARMIS Reports

(4) Second half of Tariff Period is from 2nd quarter filed ARMIS Reports

[Dollar in 000]	1991	1992	1993	1994	1995	1996	Avg.	Payphone Adj. 1,996	97/98 Proj. w/o Payphone	97/98 Proj. with Payphone
AMERITECH										
BFP Revenue Requirement: Actual	892,813	937,435	941,041	1,045,371	975,226	1,032,269		9,892	1,080,605	**1,090,960**
BFP Revenue Requirement: Growth		5.00%	0.38%	11.09%	-6.71%	5.85%	3.12%			
BELL ATLANTIC[1]										
BFP Revenue Requirement: Actual	981,345	1,029,531	1,079,405	1,168,527	1,187,574	1,240,761		16,620	1,330,542	**1,348,364**
BFP Revenue Requirement: Growth		4.91%	4.84%	8.26%	1.63%	4.48%	4.82%			
BELL SOUTH										
BFP Revenue Requirement: Actual	1,498,051	1,545,969	1,618,000	1,716,578	1,825,171	1,850,117		22,316	1,970,246	**1,994,011**
BFP Revenue Requirement: Growth		3.20%	4.66%	6.09%	6.33%	1.37%	4.33%			
NYNEX										
BFP Revenue Requirement: Actual	1,123,402	1,100,300	1,150,011	1,278,092	1,389,911	1,215,765		11,320	1,251,576	**1,263,229**
BFP Revenue Requirement: Growth		-2.06%	4.52%	11.14%	8.75%	-12.53%	1.96%			
PACIFIC BELL										
BFP Revenue Requirement: Actual	776,688	765,522	843,148	823,248	874,330	867,339		10,872	897,907	**909,162**
BFP Revenue Requirement: Growth		-1.44%	10.14%	-2.36%	6.20%	-0.80%	2.35%			
NEVADA BELL										
BFP Revenue Requirement: Actual	16,047	16,369	16,962	17,779	19,181	20,577		378	22,158	**22,565**
BFP Revenue Requirement: Growth		2.01%	3.62%	4.82%	7.89%	7.28%	5.12%			
SOUTHWESTERN BELL										
BFP Revenue Requirement: Actual	771,322	812,727	868,873	931,619	1,020,727	1,079,177		18,330	1,191,808	**1,212,051**
BFP Revenue Requirement: Growth		5.37%	6.91%	7.22%	9.56%	5.73%	6.96%			
US WEST[2]										
BFP Revenue Requirement: Actual	819,458	889,047	946,642	1,041,616	1,142,876	1,249,309		14,598	1,414,357	**1,430,884**
BFP Revenue Requirement: Growth		8.49%	6.48%	10.03%	9.72%	9.31%	8.81%			
TOTAL RBOC	**6,879,126**	**7,096,900**	**7,464,082**	**8,022,830**	**8,434,996**	**8,555,314**		**104,326**	**9,159,199**	**9,271,227**
		3.17%	5.17%	7.49%	5.14%	1.43%	4.48%			

[1] Bell Atlantic claims (at 3) to have restated its 1996 ARMIS data to reflect the requirements of the Commission's February 20, 1997 Report and Order, CC Docket 96-22. However, while adjusting its 1996 Actual revenue requirement, Bell Atlantic adjusted for Account 4310 changes a second time. (See Exhibit 22S-2-F). AT&T has excluded this $15,927 adjustment for 1996.

[2] U S WEST miscalculated the 1995/1996 calendar year BFP Revenue Requirement by excluding the RAO 20 costs. See Exhibit 5, page 6 of 7. AT&T's analysis includes the corrected data.